

Cabinet – 18 December 2019

Corporate Energy Management

Portfolio: Councillor Chattha, Personnel and business support

Related portfolios: All

Service: Integrated Facilities Management

Wards: All

Key decision: Yes

Forward plan: Yes

1. Aim

To identify the new procurement route for the Council's gas and electricity supplies, including the pricing and management strategies. The result will be to deliver a more cost effective service assist in reducing the impact of increasing energy costs and stream line the day to day management processes.

2. Summary

- 2.1 The Council has procured the services of Consultus International PLC ('Consultus') an energy brokerage service, to review the Council's energy supplies.
- 2.2 Consultus have now completed an initial review and risk audit of the Council's energy utilisation, contracts and energy management arrangements in order to advise the Council regarding its current position, future considerations and options for its energy supplies. The outcomes of this work the Energy Purchasing Strategy was shared with key internal stakeholders and has informed the recommendations in this report.
- 2.3 Subject to Cabinet approval, Consultus will formalise the Council's approved energy purchasing strategy in accordance with the Council's instruction and act as an advisor and managing agent to the Council in accordance with the approved contract management approach. This will enable the Council to achieve the best value and appropriately manage risk associated with the supply of electricity and gas.
- 2.4 This is a key decision as the anticipated expenditure for the electricity and gas supplies exceeds the £250,000 threshold for "significant" expenditure.

3. Recommendations

- 3.1 That Cabinet approve the 'Capital at Risk' energy purchasing approach, which will be formalised as the Council's Energy Purchasing Strategy, as set out in Table 1, 4 of this Cabinet Report.
- 3.2 That Cabinet approve the 'Partial Customer Involvement' contract management approach option as recommended in Table 1, 4 of this Cabinet Report.
- 3.3 That Cabinet approve delegated authority to Executive Director - Resources and Transformation, to enter in to contracts for the demand driven provision of electricity and gas supplies via an OJEU compliant framework, for the period 1 April 2020 to 31 March 2022, with the option to extend contracts for an additional 12 months from 1 April 2022. This approval also includes the sealing or signing of contracts, deeds or other related documents with the following suppliers:
- Electricity (Non Half Hourly Supplies) – Scottish Power
 - Electricity (Half Hourly Supplies) – Total Gas and Power
 - Gas – Total Gas and Power
- 3.4 That Cabinet delegate authority to the Executive Director, Resources and Transformation or their nominated officer to enter into fixed price contracts with Scottish Power and Total Gas and Power, during the period set out in Recommendation 3.3, for the provision of electricity and gas supplies, where it is in the Council's financial interest to do so.

4. Report detail - know

Context

- 4.1 At Cabinet on the 12 December 2018 it was agreed to extend the current electricity supply with Npower, for an additional 12 month period, 1st April 2019 to 31st March 2020. This would enable the procurement of an energy brokerage to review the Council's energy purchase contracts. This was deemed necessary as the skill sets required to undertake this review and ongoing energy management are no longer in the Council's workforce.
- 4.2 Following an open tender process Consultus were appointed to supply energy broker services including, energy management, bureau services (bill validation) and gain access to a framework compliant with the Public Contracts Regulations 2015 to purchase electricity and gas supplies.
- 4.3 Consultus carried out the review and the recommendations were reviewed at a Stakeholders workshop of Council staff who have a direct involvement with the electricity and gas supply contracts.
- 4.4 The main areas of focus in the stakeholders meeting was the energy purchasing strategy options including pricing and the contract management approach as set out below and Tables 1 and 2:

Purchasing strategy options:

- (i) Fixed price option: This will give the Council a fixed price for the duration of the contract;
- (ii) Capital at Risk: Where the Council will buy energy at the daily rates until the market increase to an agreed percentage threshold and then energy would be purchased for an agreed time scale until the prices start to fall again;
- (iii) Actively Managed Purchasing: With the same process as the Capital at Risk process, the market and purchasing will be based on a numerical model based on the historic model of trading of the electricity and gas markets.

Contract management options

The purchase of electricity and gas under the Capital at Risk process requires the Council to agree a preferred contract management approach for which the following options were considered:

- (i) Consultus Fully Managed: The Council will give Consultus permission to make the decision and enter into contracts and purchase the energy on the behalf of the Council; or
- (ii) Partial Customer Involvement: Delegation will be given to the nominated officer as set out within Recommendations 3.3 and 3.4 of this report, to enter into call off and fixed price contracts and authorise the purchase of the electricity and gas based on the advice of Consultus. The Executive Director – Resources and Transformation or their nominated Officer would instruct Consultus who will execute the instruction on the Council's behalf to the suppliers; or
- (iii) Full Customer Involvement - Delegation would be given to the nominated officer as set out within Recommendations 3.3 and 3.4 of this report, to directly enter into call off and fixed price contracts and authorise the purchase of the electricity and gas direct from suppliers, based on the advice from Consultus.

4.5 Electricity and gas will be purchased through an EU compliant framework operated by Consultus with the following suppliers:

- Electricity (2 providers): Scottish Power/Total Gas and Power;
- Gas: Total Gas and Power.

The proposed call-off contracts will run from 1 April 2020 to 31 March 2022, and Consultus will retender these contracts at the end of this period, in order to provide the Council with the option to enter into further contracts for an additional period of 12 months from 1 April 2022. These energy contracts be two-party agreements, i.e. Consultus will not be a party to them.

Council Corporate Plan priorities

4.6 Energy supply links to the current priorities set out in the 2018-2021 Corporate plan as follows:

- Internal Focus: All Council services are efficient and effective; and
- Economic Growth: For all People, communities and businesses.

Risk management

4.7 The risk management for pricing and management elements of energy supply are based on financial loss and gain due to the decision making processes involved.

4.8 Table 1 Purchasing Strategy Options

| Risk Level | Description | Risk | Mitigation |
|------------|-----------------------------|---|--|
| Low | Fixed Price Option | No potential savings from decrease in energy prices. | Risk to be recognised as due to fixed rate there cannot be any negotiation to lower the rates. |
| Low | Fixed Price Option | As energy prices increase, a greater portion of the fixed budget will be utilised for tax and indirect charges. | If this option is selected, then any increase in tax and indirect charges are requested to be built into the medium term financial outlook (MTFO) in order to have sufficient budget for electricity and gas usage. |
| Medium | Capital at Risk | Prices of the energy supplies in market place may increase therefore the Council has to spend more for the same amount of energy usage | Agree an optimum increase threshold limit (recommended by Consultus at 12%) to minimise risk so initial energy budgets are not overspent. Where prices drop there is no threshold which means the Council is able to take advantage of price decreases as soon as it instructs Consultus to move to lower price contracts. |
| High | Actively Managed Purchasing | Reliance on software to identify price increases. The risk is that the Council will enter into contracts as determined by the software without having | Council will not enter into this approach until the software proves to be reliable. Performance of the software will be monitored without entering into this algorithmic flexible approach. |

| | | | |
|--|--|---|--|
| | | any guaranteed benefit from optimum software performance. | |
|--|--|---|--|

4.9 Table 2 Contract Management Approach Options

| Risk Level | Description | Risk | Mitigation |
|------------|------------------------------|---|---|
| Medium | Consultus Fully Managed | Consultus would have control over the purchase of the electricity and gas supplies. Risk is that the Council would not be able to enter into or exit from energy purchasing contracts. | Review the process over a period of time to validate decision performance, prior to considering utilizing this option. |
| Medium | Partial Customer Involvement | Additional time taken by the Council to respond to Consultus which could delay the purchase of electricity and gas and this could expose the Council to higher energy costs | Delegated authority to Head of Business Change or nominated officer to approve the energy trades to simplify process |
| High | Full Customer Involvement | Even more time could be taken by the Council to inform the energy suppliers directly of the intention to purchase electricity and gas and this could expose the Council to higher energy costs. | Delegated authority to Head of Business Change or a nominated officer to approve the energy trades, then communicate with the energy companies directly. Process could be time constrained exposing the Council to financial risk |

- 4.10 The low risk purchasing strategy options would give financial security and the ability to forward plan. However the Council would lose the ability in achieving cost savings through trading on the energy markets which could be used to offset any increase in taxes and indirect charges.

- 4.11 The medium risk purchasing Strategy option would enable the Council to potentially save with the reductions in the energy markets. This risk of higher costs linked to the energy markets rising is mitigated by the advice and specialist knowledge of Consultus, and the fixing of an agreed alert threshold which when energy costs reach would trigger the fixing of the electricity and gas prices for an agreed timescale.
- 4.12 The high risk purchasing strategy option could leave the Council exposed to higher financial losses through reliance on an algorithmic program and reduced efficiency in communicating the decision to purchase the electricity and gas supplies direct from the energy suppliers.

Financial implications

- 4.13 The existing revenue budgets for the energy contracts for the Council are sufficient for the current energy prices. There is a forecasted 9% increase by the energy industry in the electricity and gas non-commodity costs through taxation.
- 4.14 The non-commodity element of the electricity and gas prices, which covers distribution charges, Renewable obligations and capacity market charges are approximately 40%, as set out in Table 3, below:

Table 3 Electricity and Gas Costs

| Commodity | Total Cost | Non-Commodity Costs | Increase in costs based on 9% increase |
|------------------|-------------------|----------------------------|---|
| Electricity | £5,087,857 | £2,035,142 | £183,163 |
| Gas | £716,112 | £286,444 | £25,779 |
| | | | |
| TOTAL | £5,803,969 | £2,321,586 | £209,942 |

*Prices exclude VAT

- 4.15 The estimated increase in costs of £208,942 will either require an increase in the revenue budgets or identifications of efficiency savings.
- 4.16 However this estimated increase in costs may potentially be offset by reduction in energy usage and disposal of buildings.
- 4.17 The current electricity and gas budget of £8 million is sufficient for usage and prices at the current 2019/20 rates. The recommendations above are expected to ensure that the Council is ideally placed to take advantage of any energy price decreases that may happen. This would result in cost savings against current prices and help offset any increase in non-commodity charges.
- 4.18 The Council is also expected to take advantage of price reductions to mitigate against future price increases. Therefore if the recommendation at 3.2 is approved, the existing budget will be sufficient at current usage levels.
- 4.19 The contract with Consultus for the Energy Procurement Strategy and Energy Brokerage is £30,000 per annum and this is funded from the existing energy

budget. The contract is from 1st July 2019 to 31st March 2023 with an additional 12 month extension option.

Legal implications

- 4.20 The contract between Consultus and the Council is the short form Standard Terms and Conditions. In the event of additional services being required by the Council from Consultus, Legal services will be consulted for verification of contractual compliance for any required amendments.
- 4.21 The gas and electricity supplies will be called off an OJEU compliant framework procured by Consultus, the terms and conditions are fixed for this contract, these will be reviewed by Legal Services prior to signing of the contract by the Council.
- 4.22 There will be two electrical suppliers for the Council, the contracts for these suppliers are procured and operated independent of each other. These contracts will be reviewed by the Councils legal services department prior to signing of the contract by the Council.

Procurement Implications/Social Value

- 4.23 Consultus were appointed following an open tender process that complied with the Council's Contract Rules and they have stated in their tender that they will work closely with the Council about a mutually beneficial Social Value Plan based on their values.
- 4.24 The electricity and gas supply contracts have been procured in compliance with the Public Contracts Regulations 2015.

Property implications

- 4.25 No Property Implications

Health and wellbeing implications

- 4.26 No health and wellbeing implications

Staffing implications

- 4.27 No staffing implications

Reducing Inequalities

- 4.28 The implications for reducing inequalities have been taken into account and assessed as set out below.

There is no change to the final delivery of the service so there is no impact on inequalities.

Consultation

- 4.29 Stakeholder meeting have taken place with the main users of the electricity and gas supply contracts, including Highways Street lighting, Finance, Facilities management and Procurement.

5. Decide

- 5.1 It is recommended that the Council adopts the energy purchasing strategy and contract management approach options for the supply and management of electricity and gas as set out in Table 4 below:

Table 4 Decision Table

| Decision | Pro's | Con's |
|---|---|--|
| Energy Purchasing Strategy | | |
| Capital at Risk | The Council take advantage of fall in prices in the energy markets. The option to fix the energy prices remains open to enable the capping of the energy costs in the event of price increase | Financial modelling and forward budgeting is unable to be undertaken as prices are fluctuating. Increase in energy costs cannot be offset against the energy market conditions |
| Contract Management Approach | | |
| Partial Customer Involvement for the agreement to fix electricity and gas prices in the event of increase in the energy markets costs | The Council retain control of the financial processes and budgets | In the event of energy price increases the Council could be exposed due to the time to communicate the option to fix the energy supplies |

6. Respond

- 6.1 On the approval of this Cabinet report by Cabinet, Consultus will prepare the final Energy Purchasing Strategy report. This will be adopted by the Council and the agreed energy strategies implemented.

7. Review

- 7.1 Facilities management will monitor the performance of the energy contracts cost and performance.
- 7.2 Quarterly meetings will be held between Consultus and the Council to review performance of the Energy Pricing Strategy.

7.3 The Council will review the agreed Energy Pricing Strategy and Management processes and amend if required.

Background papers

Consultus International Group - Energy Market Update, Risk Workshop and Strategy presentation

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